QUESTOR CORPORATION Annual Report 1975

THIS IS QUESTOR

Questor Corporation is an international diversified manufacturer of consumer products serving four distinct markets.

AUTOMOTIVE

Serving the original equipment and replacement markets for car and truck parts.

Products: Exhaust system parts • shock absorbers • piston rings and valve seat inserts • piston ring castings • specialized gray iron castings

Brand Names: AP • Merit • Columbus • Thruway • Muskegon • Goerlich's

RECREATION

Providing quality products to participants in the growing recreation and athletic markets.

Products: Golf clubs, balls and gloves • tennis racquets, balls and clothing • skis and ski boots • team sports equipment • billiard products

Brand Names: Spalding • Fischer • Caber

JUVENILE

Supplying a broad line of goods for the care, entertainment and education of children and infants.

Products: Infant feeding and care equipment • juvenile furniture • car seats • toys • books • baby carriers

Brand Names: Evenflo • Kantwet • Infanseat • Baby Line • Tinkertoy • Child Guidance • Platt & Munk • Lullabye • Toss'ems • Child Horizons' Sesame Street and Electric Company

HOME ENVIRONMENTAL

Furnishing goods for home remodeling and new construction.

Products: Ornamental wrought iron • decorative shutters • ventilation products • ceiling grid systems • outdoor lighting • window guards

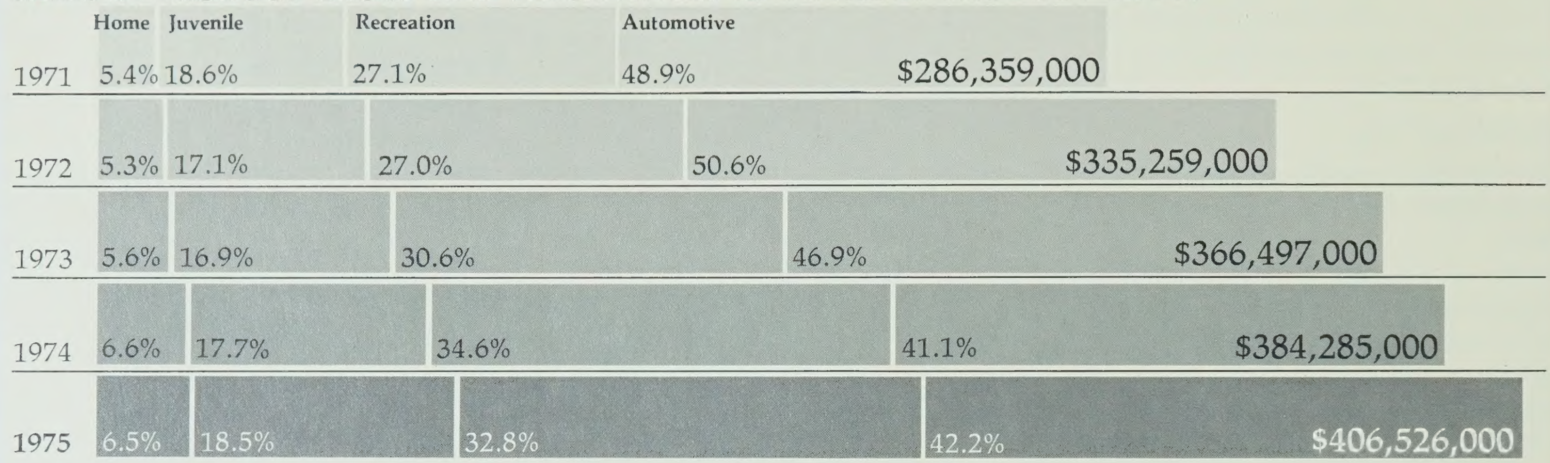
Brand Names: Leslie-Locke • Ajust-A-Rail • Versa • Style-A-Rail • Classic

CONTENTS

A copy of the Form 10-K for Questor Corporation, as will be filed with the Securities and Exchange Commission, will be available to our shareholders, without charge, upon written request to:

Questor Corporation
Shareholder Relations
P.O. Box 317
Toledo, Ohio 43691

SALES BY PRODUCT GROUP AND PERCENTAGES OF TOTAL BY PRODUCT GROUP

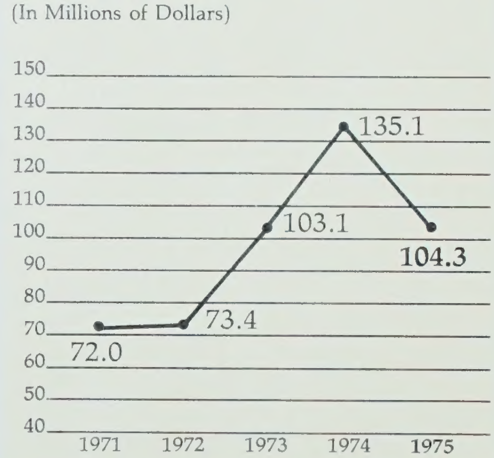


RESULTS OF OPERATIONS:

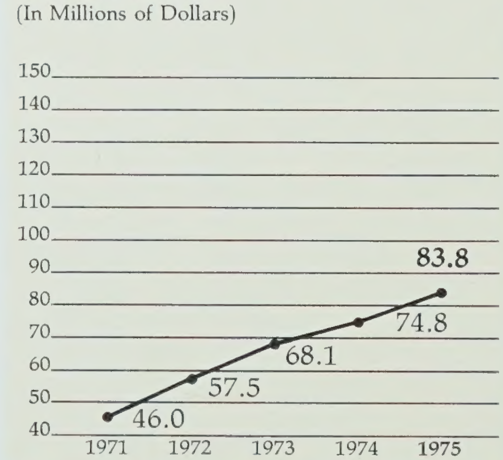
	1975	1974
Net Sales	$406,526,000	384,285,000
Earnings (Loss) before Federal and other nations' Income Taxes	5,153,000	(6,380,000)
Net Earnings (Loss)	2,253,000	(2,980,000)
Earnings (Loss) per Common Share: (1)	.23	(.35)
Average Number of Shares Outstanding: (1)	8,980,631	9,071,183

(1) Adjusted retroactively for common stock dividends declared in 1975 and 1974.

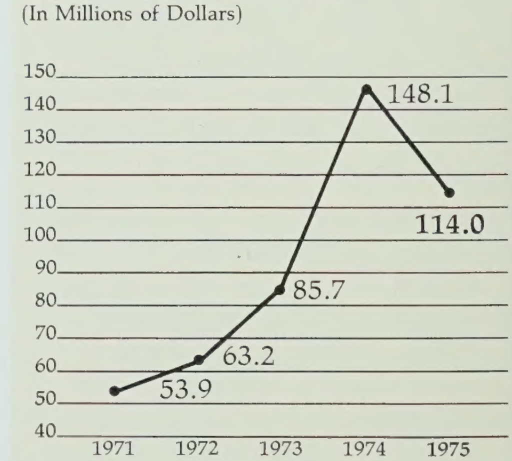
INVENTORIES
(In Millions of Dollars)



RECEIVABLES
(In Millions of Dollars)



TOTAL BORROWINGS*
(In Millions of Dollars)



*Includes unsecured bank loans, current maturities of long-term debt, and long-term debt.

TO OUR SHAREHOLDERS:

Questor Corporation made significant progress in 1975. The challenge to return to a profitable position was met. Net earnings amounted to $2,253,000, or .23 cents per share, on record sales of $406,526,000 compared to a 1974 loss of $2,980,000, or .35 cents per share, on sales of $384,285,000. Pre-tax earnings increased to $5,153,000 from a loss of $6,380,000 in 1974.

The key to our recovery was strict adherence to controls imposed at all levels of operations. These programs enabled us to achieve our two main objectives for the year: to return to profitability and to improve the quality of our balance sheet.

As we entered 1975, we were confronted with reduced demand and resultant excess inventories. Our resolution of this problem was to reduce costs and generate cash by a combination of production curtailments and selective inventory adjustments. As a result, our year-end inventories declined $30,800,000, 23 percent from 1974. Due to the selectivity of the inventory reduction, we have been able to increase the efficiency with which we serve our customers.

Cost reduction programs were increased at the manufacturing, distribution and administrative levels. These reductions in operating expenses were evident in profit margin improvement on many of our products.

Capital expenditures were kept at a minimum and we pursued only the optimum of investment options. We streamlined distribution facilities and consolidated manufacturing at selected facilities. Our capital expansion programs of the last few years benefited 1975, as our Goldsboro, North Carolina and Piqua, Ohio plants contributed favorably to our 1975 results. These efficient facilities are capable of accommodating substantial upturns in product demand.

As a result of the improved cash flow and cost reduction programs, we were able to reduce our short and long-term borrowings by $34,100,000. The combination of these reduced borrowings and lower interest rates resulted in a reduction of our borrowing costs.

We are particularly pleased with the performance of our domestic automotive operations. Benefiting from a recuperating replacement parts market, the absence of material shortages, improved labor relations, strong new product acceptance and tightened internal controls, we

experienced a dramatic turnaround from an $11 million loss in 1974 to a profit in 1975. The domestic contribution to corporate profitability was reduced by losses at our Canadian and Spanish automotive facilities, however, total automotive operations returned to a profitable position for the year.

The 1975 recession in the U.S. sporting goods industry adversely affected the results of Spalding and had a significant impact on Fischer.

The billiard operations suffered a sizeable loss. Spalding's international operations showed improvement. The overriding significance of conditions in the domestic sporting goods industry, however, was such that the Recreation Group, as a whole, incurred a loss for the year.

The Juvenile Products Group was our largest profit contributor. Despite low levels of consumer demand early in the year and resultant losses during the first quarter, each of our juvenile products divisions ended the year on a profitable basis. Significantly, Questor Education Products, which last year experienced depressed revenues and a resultant loss, led this Group in earnings recovery.

The Home Environmental Products Group reported a modest sales improvement and an earnings increase in spite of restricted home improvement and new construction markets.

Due primarily to losses incurred by several of our non-domestic operations during 1975, for which there is no tax loss carryback, our effective Federal and other nations' income tax rate was 56.3 percent of pre-tax earnings compared to the statutory rate of 48 percent.

During 1975 we welcomed two new directors to Questor's Board: William F. Spengler, Jr., a director and executive vice-president of Owens-Illinois, Inc. and president of its International Group; and Raymond Plank, president and chief executive officer of Apache Corporation. The addition of Messrs. Spengler and Plank increased the number of directors from eight to ten.

Quarterly two percent common stock dividends were declared during 1975 in addition to a year-end one cent per share cash dividend on the outstanding common stock. The normal cash dividends were declared on our preferred stock.

We emerged from 1975 a much stronger company and we are entering 1976 with upward momentum. Encouraged by our ability to successfully weather the difficult conditions of the past two years and somewhat healthier economic prospects for the coming year, we are optimistic that with adherence to present corporate programs and goals and through the continued responsive efforts of our employees and customers, we will make further progress in 1976.

Paul Putman Chairman of the Board	P. M. Grieve President

March 5, 1976

AP
Merit

Goerlich's
Muskegon

Thruway
Columbus

Spring 1975, marked the beginning of a turnaround for the depressed replacement parts industry. Our domestic manufacturing facilities were operating at near capacity by the second half of the year.

Exhaust Systems

Mufflers and Clamps

Shock Absorbers

Benefiting in part from price adjustments instituted late last year, our Automotive Group revenues for 1975 increased 8.6 percent to $171,672,000. Automotive operations, which suffered an $11 million pre-tax loss in 1974, returned to a profitable position.

The domestic profit improvement resulted primarily from strict management discipline. Emphasizing cash conservation, we tightened all production planning, in-plant scheduling and inventory and budget control programs. Consequently, inventories are again at acceptable levels.

Early in 1975, we cut production runs to hold inventory levels to current demand. As the market improved, we increased production, and, for the second half of the year, our domestic facilities operated at near capacity.

With the exception of a brief strike at our Dyersburg, Tennessee facility, labor relations were much improved in 1975. Also, unlike 1974, we experienced no raw material shortages. Steel prices continued to escalate but at a substantially lower rate.

AP PARTS

The recession in the replacement parts industry, which began in the fourth quarter of 1973, moderated in 1975, with the first signs of improvement appearing in the Spring. With most of AP's products directed to this market, their sales improved at all levels of distribution.

The efficiency of our new Goldsboro, North Carolina plant was responsible for part of this year's operating improvement.

Our Columbus line of heavy duty shock absorbers and adjustable air shocks, has received excellent market acceptance.

The Northern Tube Division, which supplies the original equipment truck market, continued to be a profit contributor in the face of a depressed industry environment.

The original equipment market remains depressed. Despite this, AP increased its exhaust system sales volume and share in this market during 1975.

BUSINESS AND PRODUCT GROWTH

AP Parts was awarded two significant contracts by Chrysler Corporation. AP is supplying all exhaust systems on the 1976 Plymouth Volaré and Dodge Aspen compact models. Additionally, as a result of a cost saving proposal, AP won a contract for a redesigned muffler for several Chrysler Corporation products. The muffler eliminates the need for a resonator while conforming to Federa noise regulations.

Our Columbus shock absorber line continued its success as new custome were added during the year and new products were introduced.

In 1975 Columbus introduced two innovative shock absorbers. The air shock, designed for overload conditions on compact and subcompact

The neighborhood service station continues to be a leading merchandiser of AP and Merit exhaust systems.

models, enjoyed excellent market acceptance. A new heavy duty shock absorber, for small cars, that offers a better ride and longer life was also well accepted by our customers.

MUSKEGON PISTON RING

Muskegon Piston Ring made an important contribution to profits in 1975 despite reduced original equipment sales. At the same time, Muskegon's expanded product line made gains in the replacement market. The management of this division is to be commended for their results in light of the poor market conditions which existed for their products.

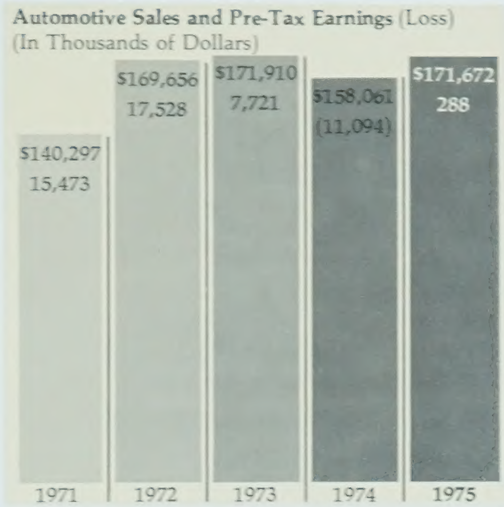
AP PARTS INTERNATIONAL

Start-up costs at our AP Amortiguadores, S.A. shock absorber facility in Pamplona, Spain and an extended strike at our Spanish muffler plant, AP Iberica, S.A., seriously depressed our international operating results. Our Canadian facility also suffered continuing costs from the absorption of muffler production transferred in late 1974 from the U.S.

But the business was not without its bright side. The Spanish facilities won contracts for substantial shares of the shock absorber and exhaust system requirements for Ford Motor Company's Spanish and German plants. Shipments will begin this spring. These are sizeable contracts which should contribute to an improvement of the Spanish operations.

OUTLOOK

Domestically, the automobile industry is anticipating production of almost eight million cars in 1976, up from 6.7 million in 1975 which was the lowest in 14 years. Over the next several years, replacement parts demand should increase three to five percent annually.



Traditionally, AP and Merit have distributed aftermarket products through warehouse distributors.

With an ever increasing number of compact cars, both foreign and domestic, the replacement parts market serving this segment of the industry continues to grow steadily.

Internationally, we expect improved sales and earnings from our Spanish, Mexican and Canadian operations.

Overall, we expect further improvement from our Automotive Group in 1976. Our strengthened financial posture and more efficient operations should enhance our position in an improving economy.

RECREATION

Spalding **Fischer** **Caber**

The duration and severity of the recession left its mark on the entire sporting goods industry in 1975. While international operations improved, the sales volume and profitability of Spalding U.S.A. declined. In addition, a substantial loss was incurred by our Fischer billiard division. The Recreation Group, as a whole, incurred a loss for the year.

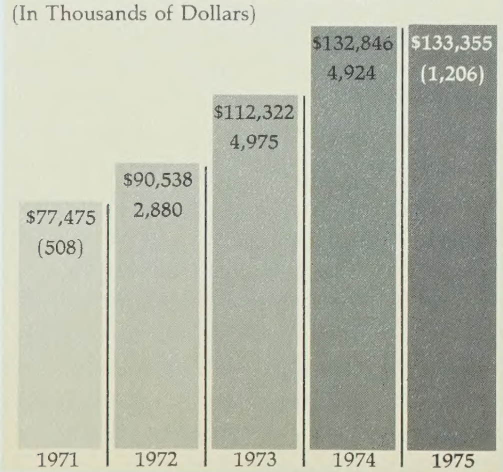
Production curtailments kept inventories in line with demand. Further manufacturing efficiencies improved margins on a number of products and price adjustments compensated for material cost increases.

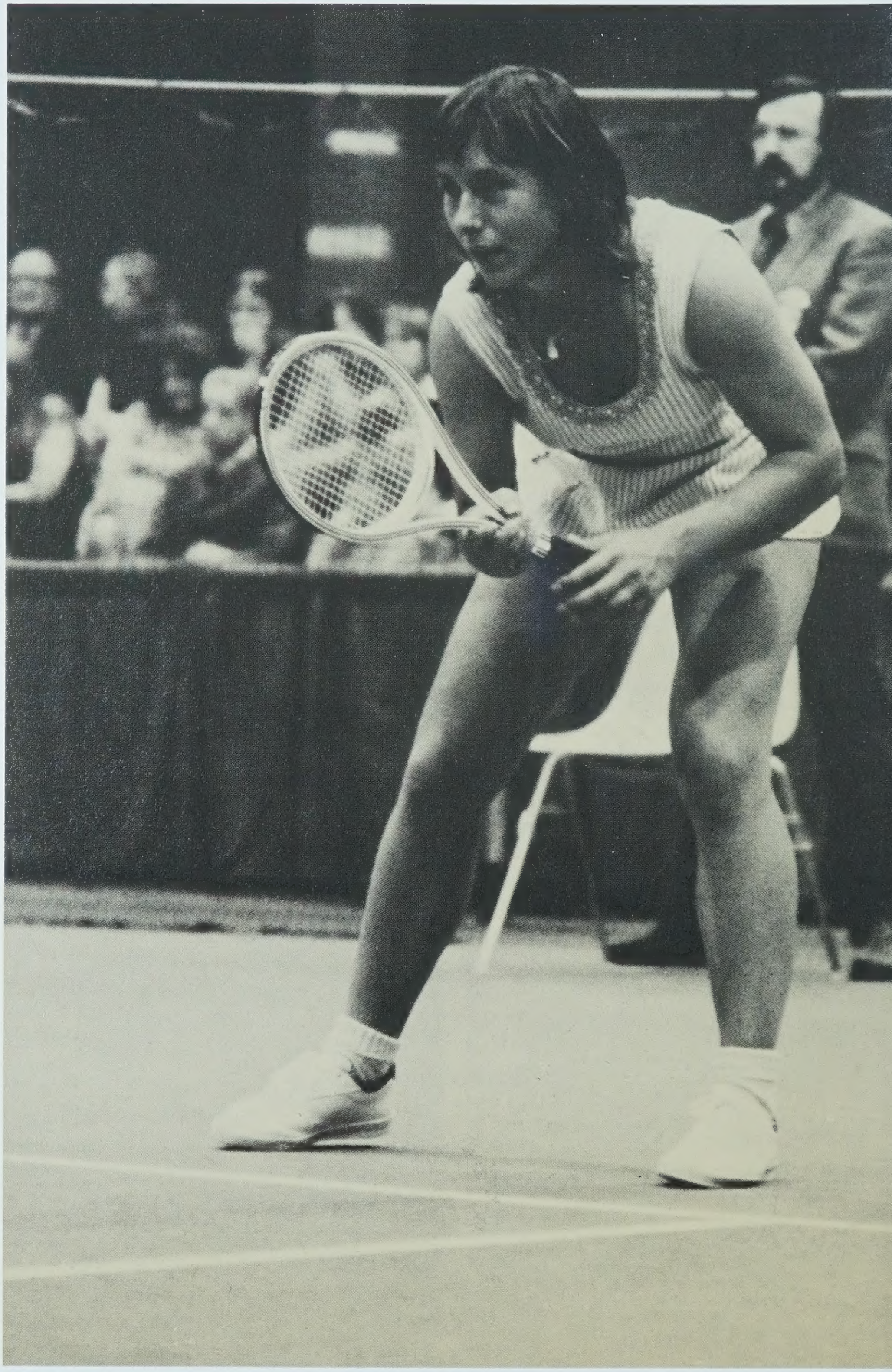
As part of our program to streamline distribution, two new facilities were opened during the year. The Reno, Nevada center serves eleven western states and the Indianapolis, Indiana location supplies the Midwest. These replaced several less efficient distribution facilities.

TENNIS

For tennis equipment manufacturers, 1975 was a shake-out year. Industry sales were substantially lower than expectations, with the medium and low-priced racquet lines hardest hit.

Recreation Sales and Pre-Tax Earnings (Loss)
(In Thousands of Dollars)





Nineteen-year old Martina Navratilova from Beverly Hills, California, U.S.A., a member of the Spalding staff, tours the country on the Virginia Slims Women's Circuit.

Golf Clubs, Balls and Gloves

Tennis Balls and Racquets

Tenniswear

Domestically, we were below our 1974 sales levels; however, the high end of our product line, manufactured in our Belgian facility, experienced increases. Introduced in 1974, the La Vitesse and World Open racquets were well accepted in the professional market.

Spalding maintained its market share for tennis balls despite an industry oversupply and subsequent price-cutting by competition. With present industry capacity sufficient to meet expected demand over the next few years, we deferred a planned manufacturing expansion.

In 1975 we introduced, under the Spalding name, uniquely coordinated tenniswear lines for men and women. These were created by the well-known designer, Doli Cole. Geared for durability with a minimum of care, the lines have been well accepted.

Spalding and the World Championship Tennis organization (WCT) signed an agreement whereby Spalding gained exclusive distribution rights to supply tennis racquets, balls and clothing bearing the WCT label. Several items in our tenniswear line as well as two tennis racquets have been designated to bear the WCT monogram. An official tennis ball, the Spalding Australian, has been specially designated for use in all WCT matches.

Top-Flite 100, the official ball to be used in the 1976 Olympics at Montreal.

GOLF

Excess capacity and high retail inventories hampered the golf industry here and abroad. Our Elite Centurion and other professional club lines continued to enjoy success in the United States and Japan, but demand lessened in the middle and low-priced ends of the dealer markets. This necessitated reduced golf club production.

Late in 1975 we introduced two dealer clubs, the Rebel and the Eagle.

For 1976, Spalding's Centennial year, we have introduced the Top-Flite Legacy line. These golf clubs are a contemporary version of the well-remembered 1953 Top-Flite club recognized for its quality and consistent playability.

Our highly successful Top-Flite golf ball again exceeded forecasts and capacity expansion is planned for 1976. A new series, the Molitor, was presented in 1975. In our opinion, the Molitor is the most prestigious, exact and best performing ball on the market today. We also introduced the Flying Lady, a ball specially engineered and designed for the swing of the average lady golfer, and the Straight Shooter, designed as a teaching aid for golf pros and beginners.

SKIS

Our ski business, reflecting satisfactory inventory levels, favorable weather conditions and the return of the occasional skier to the marketplace, returned to a profitable level from the loss experienced in 1974. Skis and ski boots are manufactured by our two subsidiaries in Italy and distributed worldwide.

For the fourth time in the last five years, the coveted World Cup was won on Spalding skis. Caber boots were worn by the runner-up.

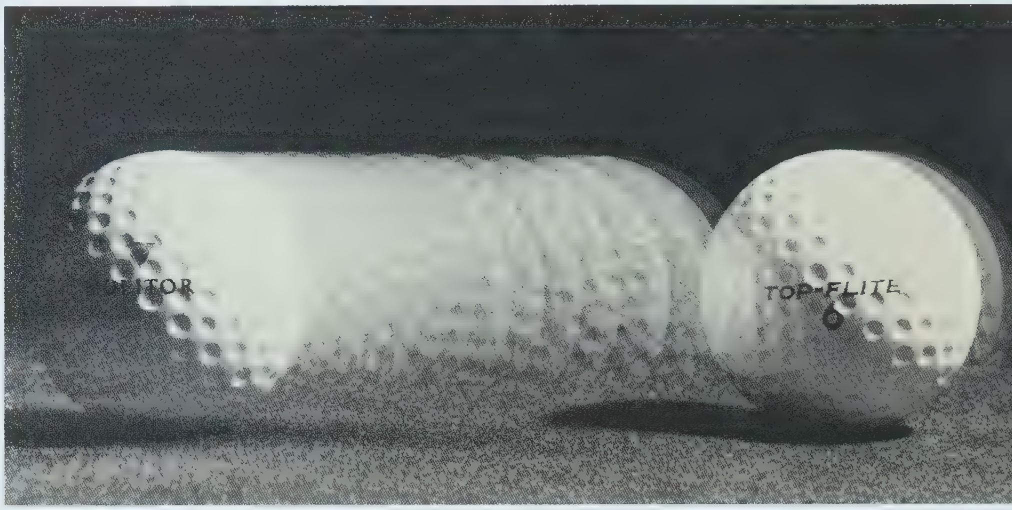
Superstar Pelé has joined Spalding's Advisory Board to aid in developing a line of soccer balls for worldwide distribution.

Skis and Ski Boots

Billiard and Game Tables

Billiard Accessories

The LaVitesse racquet, manufactured in our Belgian facility, has gained good acceptance in the professional market.



In addition to the highly successful Top-Flite golf ball, Spalding is now marketing a new premium-priced, high performance ball—the Molitor Series.

BILLIARDS

In an industry suffering from depressed consumer demand and overstocked retail outlets, Fischer reported a sizeable loss for the year with a large decline in sales volume.

To correct the unfavorable performance of 1975, we have restructured this operation. Measures taken include tighter internal controls, consolidation of facilities and an expanded customer-base development. We are optimistic that results from this program will be visible in 1976.

TEAM SPORTS

Our Top-Flite 100 basketball was selected as the official ball for the 1976 Olympics.

In addition to its worldwide popularity, soccer is becoming an increasingly important team sport in the United States. Pelé, the international superstar, joined Spalding's Advisory Board to aid in developing a line of soccer balls for worldwide distribution.

OUTLOOK

U.S. tennis sales in 1976 will show little improvement over the previous year with retail inventories still at high levels. Approximately 27 million Americans are presently tennis enthusiasts. While tennis continues to be one of the most popular sports in the country, the growth rate of new participants is expected to slow somewhat in 1976 and subsequent years. With continued intensive marketing activities, we anticipate an improvement in our share of this market.

The prospects for a renewed market in billiards is not good at this time. Hopefully, an increase in consumer discretionary income with an improved economy will aid the billiard market and Fischer.

As the U.S. and Japanese economies recover, the golf market should improve. The total golfer population is holding its own and the number of rounds played continues to increase. Spalding is one of the best known names in the golf industry and, with continued new product innovations, it will continue to improve its position in the industry.

We anticipate a continued steady growth in team sports and skis.

Created in 1975 by the well-known designer, Doli Cole, contemporary tenniswear became a part of the Spalding tradition of quality and value.

Team Sports Equipment

Golf, in America, includes many legendary figures. Among these great golfers are Bobby Jones (pictured), Horton Smith and Paul Runyan, all of whom played Spalding equipment.

ONE HUNDRED YEARS OF FIRSTS IN SPORTS
100
SINCE 1876
SPALDING

Child Guidance Toys

Each of the three divisions—Evenflo, Juvenile Furniture and Questor Education Products—contributed to the Juvenile Group's earnings. Questor Education Products, with an increased product demand, experienced a dramatic turnaround from a 1974 loss and led the Group in earnings recovery.

Toward the end of 1974 and the early part of 1975, large retail inventories, mounting interest rates and a fall-off in consumer demand caused retailers to reduce purchases of infant products.

To cope with the decreased demand, we temporarily closed certain juvenile plants early in 1975 and instituted strict internal controls. These actions resulted in substantial inventory reductions from year-end 1974 levels and an improvement of our receivables position.

In the second quarter of 1975, retail demand revived. Consequently, in the second half of the year, we were able to recoup much of the year's anticipated sales.

The turnaround at Questor Education Products was a significant factor in our 1975 performance improvement. Operations benefited

Schroeder's Piano, from the World of Charlie Brown, was one of several successful new products introduced by Child Guidance in 1975.

Tinkertoys

Sesame Street Puppets

Platt & Munk Children's Books

greatly from new products and increased consumer demand. Among the successful new products from QEP were Child Guidance' Push and Play with the Peanuts Gang and Schroeder's Piano, both from the World of Charlie Brown, Kentucky Fried Chicken food center and the Brunswick Bowling Center.

Platt & Munk enjoyed its second consecutive year of strong book sales and Tinkertoy continues to be a leader in the industry.

Among the new products Evenflo introduced were Big Mouth Singers and the Gingerbread Man. The Big Mouth Singers, innovative in design and color, is an electric feeding dish which gave Evenflo an entry into this growing segment of the infant care market. By heating two of the three compartments, it is unique in construction. This product has received exceptional area market acceptance. The Gingerbread Man, also, is a feeding dish but with a hot water compartment to be filled manually. It is distributed through the infant departments of retail stores and is selling well. For 1976 Evenflo will test market a line of inexpensive, yet functional, water toys for bath and pool play areas for children up to six years of age. Nationwide distribution is tentatively planned by year-end.

Our juvenile furniture division initiated full production at its new Piqua, Ohio plant. The 155,000 square foot juvenile bedding and metal products facility experienced start-up costs as production began but it is now operating on a profitable basis. The plant meets our expectations as an efficient, highly productive facility. It doubles our Kantwet and metal

A series of Sesame Street hand puppets, introduced in 1973, continues to be among the most popular children's toys.

New entries in the infant feeding market are heated feeding dishes by Evenflo—Big Mouth Singers and Gingerbread Man.

products line capacity and extends our distribution capability.

Several new products were added to our juvenile furniture lines, including several new Lullabye and Baby Line furniture ensembles, a lighter, lower priced version of Infanseat's pocket baby carrier and a medium priced car seat which incorporates the safety features of our Kantwet Care Seat.

INTERNATIONAL OPERATIONS

Evenflo's Mexican operations, responding quickly to an inflationary economy and a strong baby market, again enjoyed a good year.

Evenflo expanded its overseas operations with an investment in the Philippines' market. The new facility will supply the local market and export products to growth areas in the Far East. Production commenced in the fourth quarter and we expect an increased profit in 1976.

In January of 1976 we completed the sale of our Canadian juvenile furniture operation. Our Canadian Evenflo infant feeding operation will be retained.

OUTLOOK

With an industry environment considerably healthier than a year ago, 1976 begins on a promising note. Population experts are predicting that the unprecedented decline in the nation's birth rate over the past several years may have bottomed out. Births in absolute numbers are increasing and this trend should continue over the next five years. The percentage of first births is also up and statistics show that these parents are, on an average, older and more affluent. These are positive factors for our juvenile products' markets.

From Infanseat—a new, lighter and less expensive pocket baby carrier.

Leslie-Locke **Versa** **Style-A-Rail**

The Leslie-Locke Style-A-Rail is easily installed by the do-it-yourselfer. It is available in three designs to suit the most popular home styles.

Leslie-Locke, our home environmental products division, enjoyed a good year. Operating in a softened home improvement market and a depressed new construction environment, they reported a strong improvement in sales and earnings.

Leslie-Locke is a major force in the highly fragmented do-it-yourself home improvement industry. The Spring and Summer months are usually the strongest periods for home improvement sales. But, with consumer spending at cautious levels in the first half of 1975, the industry experienced one of its shortest selling seasons in history.

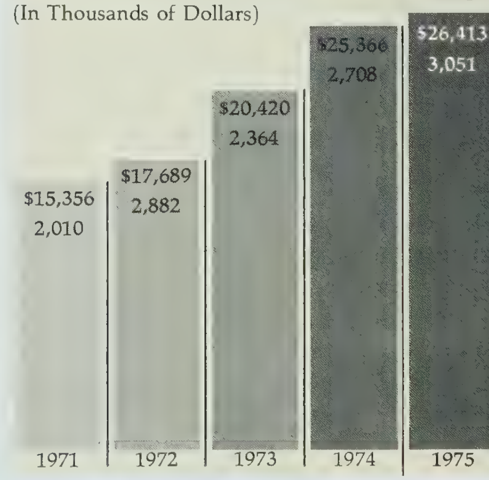
An early response to warnings of market weakness, effective cost reductions, greater manufacturing efficiencies and lower raw material prices were the principal factors in Leslie-Locke's earnings improvement.

During the year, this division also strengthened its financial position by inventory reductions, receivables improvement and cash conservation.

PRODUCTS

Ventilation products' sales continued to increase in 1975. With homeowners' utility costs steadily climbing,

Home Environmental Sales and Pre-Tax Earnings
(In Thousands of Dollars)



prospects are favorable for continued growth of products such as our thermostatically controlled, attic power ventilating system.

Style-A-Rail, a new decorative product line of weather resistant plastic coverings for railings, appears to be a promising new product and should add favorably to 1976 results.

Leslie-Locke added another product for the growing home security market with its Basement Wind-O-Guard. Installed on the outside of the window, it reduces the possibility of entry through normally accessible areas.

OUTLOOK

The long-term outlook for the home improvement market continues strong. Consumer expenditures for residential additions, repairs and improvements have expanded at an average rate of close to ten percent annually over the past five years despite some brief interruptions.

Security for the home is more important today than ever. The Leslie-Locke Wind-O-Guard gives added protection and adjusts to fit most standard windows.

Leslie-Locke manufactures a broad line of ventilating systems.

The outlook for new construction is considerably better with housing starts projected at 1.5 million or more for 1976, up 25 percent from the depressed level of 1975.

In this environment, Leslie-Locke, aided by a strong financial position and expanded product lines, is well positioned to aggressively enter 1976.

BOARD OF DIRECTORS

Reuben W. Askanase,
private investor

John Goerlich,
a founder of the Company

P. M. Grieve,
president,
Questor Corporation

Raymond Plank,
director, president and
chief executive officer,
Apache Corporation

Cyril R. Porthouse,
private investor

Paul Putman,
chairman of the board,
Questor Corporation

Morris Shilensky,
member of the law firm of
Hays, St. John, Abramson
& Heilbron

William F. Spengler, Jr.,
director and executive
vice-president,
Owens-Illinois, Inc.

Stephen Stranahan,
private investor

Adolph O. Susholtz,
private real estate investor

OFFICERS

L. C. Ackerman,
group vice-president

R. M. Geisler,
group vice-president

P. M. Grieve,
president

R. R. Hessler,
vice-president/finance
and treasurer

C. W. Kitzinger,
group vice-president

J. W. Myers,
group vice-president

J. W. Neithercut,
controller

J. T. Nolan,
secretary and general counsel

Paul Putman,
chairman of the board

AUDIT COMMITTEE:

Reuben W. Askanase,
chairman
Cyril R. Porthouse
William F. Spengler, Jr.

TRANSFER AGENTS

First National City Bank
New York, New York
The Ohio Citizens Trust
Company, Toledo, Ohio

REGISTRARS

The Chase Manhattan Bank
New York, New York
First National Bank of Toledo
Toledo, Ohio

AUDITORS

Peat, Marwick, Mitchell & Co.
Toledo, Ohio

CABLE ADDRESS

Questor-Tol

NEW YORK STOCK EXCHANGE
PACIFIC COAST STOCK EXCHANGE
SYMBOL-IQ

NOTICE OF ANNUAL MEETING:

The annual meeting of shareholders will be held on Tuesday, April 13, 1976 at ten o'clock in the morning, E.S.T., at The Toledo Club, 14th Street and Madison Avenue, Toledo, Ohio.

CONTENTS

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its subsidiaries, except for the accounts of four companies outside the United States which are carried by the equity method. All significant intercompany accounts and transactions have been eliminated in consolidation. The financial statements of certain non-U.S. subsidiaries (other than Canadian) relate to the years ended November 30. These closing dates are necessary to facilitate timely consolidation of financial data.

INTERNATIONAL CURRENCY TRANSLATIONS

Current assets and current liabilities are translated at the approximate rate of exchange at the close of the year and noncurrent assets and liabilities are translated at the historical rate. Revenue and expense accounts are translated at the current rate, except for depreciation and amortization, which are translated at the rates of exchange which were in effect when the respective assets were acquired. Gains or losses on forward exchange contracts are recognized at the time of completion. Net unrealized losses from currency translation in excess of deferred gains are charged to income. Unrealized gains from currency translation in excess of unrealized losses are deferred.

INVENTORIES

Inventories are valued at the lower of cost (first-in, first-out) or market.

INVESTMENTS

Investments in other companies are carried at the lower of cost (specific identification) or market (adjusted cost in 1974).

PROPERTY, PLANT AND EQUIPMENT

These assets are stated at cost and are depreciated principally on the straight line method over estimated useful lives ranging from two to fifty years. Certain items are depreciated by accelerated methods for income tax purposes only. The related cost and accumulated depreciation of property sold or retired are removed from the respective accounts and any gain or loss is reflected in current operations. Routine maintenance and repairs and minor replacement costs are charged to operating expense.

BUSINESSES PURCHASED

The excess of cost of businesses acquired over the underlying net asset value is amortized so that the residual value approximates management's opinion of its estimated value. Consistent application of rates used in 1975 and 1974 would result in complete amortization of not more than forty years.

INCOME TAXES

Adequate provisions or refundable claims are made annually for Federal and other nations' income taxes arising from operations, and deferred tax and future tax benefits are provided where appropriate for timing differences. No provision is made for U.S. taxes on unremitted earnings of non-U.S. subsidiaries, since it is expected that no significant amounts will be remitted to the parent company in the foreseeable future. Investment tax credits are recognized as a reduction in the provision for or increase in refundable Federal income taxes in the year that the related assets are placed in service.

PENSION PLANS

The Company and its subsidiaries have several pension plans covering substantially all employees. Pension costs accrued are funded and pension expense includes the amortization of prior service costs on the basis of amortization periods ranging from ten to forty years.

RESTRICTED STOCK AWARDS AND STOCK OPTIONS

Restricted stock awards are charged to income at market value and the related credits are to common stock and additional paid-in capital. In accounting for options, no charge is made to income. The amounts received on options exercised are credited to common stock and additional paid-in capital.

COMMON STOCK DIVIDENDS

Common stock dividends are paid in both treasury shares and newly issued shares. The market value, at dates of declaration, is charged to retained earnings and the related credits are to treasury stock at cost, or in the case of newly issued shares to common stock at par value, and the remainder is reflected in additional paid-in capital.

EARNINGS PER SHARE

Per share earnings are based on the weighted average number of shares outstanding during the respective years and, when applicable, assumes conversion of the outstanding preferred stock and issuance of common shares contingently issuable under stock option plans. Retroactive adjustment is made for common stock dividends declared.

SALES

Consolidated Questor net sales in 1975 were \$406,526,000, an increase of 5.8% over 1974 sales of \$384,285,000. Net sales of consolidated non-U.S. subsidiaries were \$75,895,000 in 1975 and \$61,774,000 in 1974. Automotive product sales amounted to \$171,672,000 in 1975, or 42.2% of the total, compared to 41.1% in 1974. Recreation sales were 32.8% compared to 34.6% in 1974. Juvenile sales increased to 18.5% from 17.7% in the prior year. Home environmental product sales were 6.5% in 1975 and 6.6% in 1974.

EARNINGS

Net earnings in 1975 were \$2,253,000 compared to a net loss of \$2,980,000 in 1974. The net loss for 1974 was primarily attributable to operating losses incurred by the Automotive Group. Losses of non-U.S. subsidiaries and associated companies were \$1,807,000 in 1975 compared to earnings of \$130,000 in 1974.

Net earnings per share (before the 2% common stock dividend declared on February 3, 1976) for the year were \$.23 versus a net loss per share of \$.35 in 1974.

Cost of sales increased 3.4% to \$298,098,000 from \$288,219,000 due primarily to higher sales volume in 1975.

Selling, general and administrative expenses increased \$4,423,000, or 5.2% compared to 1974. Increased marketing, advertising and salary expenses accounted for the major portion of this change. Advertising expense increased \$3,806,000 to \$17,882,000 due to the increased emphasis in recreational product promotion efforts.

Among the charges entering into the determination of net earnings and loss for the years 1975 and 1974 were depreciation and amortization of \$9,625,000 and \$9,464,000, an increase of \$161,000 due primarily to full utilization of two new plants in 1975. Included in the above amounts was amortization of the excess of cost of businesses acquired over the underlying net asset value of \$125,000 in each year. Rental expense was \$5,900,000 in 1975 and \$6,100,000 in 1974. Rentals included \$1,300,000 and \$1,600,000 in 1975 and 1974 for leases of computer equipment (which are "financing" leases as defined by S.E.C. rules, since the lease terms exceed 75% of the economic lives of the equipment) and of the balances, which pertain to "non-financing" leases, \$2,600,000 and \$2,500,000 relate to long-term leases of real estate and the remainder to various short-term and month-to-month rentals. Capitalization of all "financing" leases would not have had a significant effect on operations. Present

values of all "financing" leases aggregate less than 5% of the sum of consolidated long-term debt and shareholders' equity at December 31, 1975 and 1974.

Pension expense of $4,200,000 in 1975 increased $400,000 over 1974 pension expense of $3,800,000. Interest expense of $13,083,000 decreased $723,000 from $13,806,000 in 1974, reflecting decreased borrowings and interest rates.

Net other expense was $535,000 in 1975 compared to net other income of $594,000 in 1974. The $1,129,000 difference arose primarily from a 1975 charge of $1,549,000 for equity in net losses of associated companies.

At December 31, 1975 and 1974, the Company had no significant unrealized translation gains and there were no material gains or losses on uncompleted international forward exchange contracts.

The provisions for Federal and other nations' income taxes are summarized as follows:

	1975	1974
	(Thousands of dollars)	
Refundable Federal taxes	**$ (252)**	(3,064)
Net deferred Federal taxes (future benefits)	**1,425**	(1,549)
Other nations' tax expense	**1,727**	1,213
	$2,900	(3,400)

Refundable Federal income taxes in 1975 arose primarily from a carryback of investment tax credits (carryback of operating loss in 1974).

Deferred Federal taxes in 1975 represent $409,000 of accelerated depreciation and reductions of future income tax benefits arising from current payments against prior year provisions for plant closing costs of $1,134,000 and excise tax assessments of $802,000, less net tax reductions for intercompany profits in inventories ($228,000) and miscellaneous timing differences. In 1974, the principal timing difference was a $1,700,000 addition to future income tax benefits arising from a provision for plant closing costs.

No Federal income tax is payable on 1975 pre-tax U.S. income of $5,233,000 due to current deductions for the deferred and future tax benefit items referred to above, less net losses of non-U.S. associated companies accounted for by the equity method and miscellaneous adjustments to taxable income.

The effective tax provision rate in 1975 and 1974 was 56.3% and 53.4%, computed on the basis of earnings and loss before income taxes, as compared to a Federal statutory rate of 48%. Major components causing such rate differences were as follows:

	1975	1974
Federal statutory tax rate	**48.0%**	48.0
Investment tax credits	**(6.6)**	9.3
Reversal of excess provision for prior years' Federal income taxes (settled with Internal Revenue Service in 1975)	**(5.8)**	—
Equity in net losses of associated companies	**14.4**	—
Effective other nations' tax provision	**4.0**	(10.6)
Other, individually less than 5.0%	**2.3**	6.7
Effective tax rate	**56.3%**	53.4

Based upon anticipated expenditures and operations, the cash outlay for taxes is not expected to exceed tax expense during the next three years.

FOURTH QUARTER RESULTS

The results of the three months ended December 31 are summarized as follows:

	Unaudited 1975	1974
Net sales	**$99,669,000**	92,895,000
Earnings (loss) before Federal and other nations' income taxes	**1,867,000**	(4,563,000
Net earnings (loss)	**367,000**	(2,539,000
Earnings (loss) per common share*	**.04**	(.29

*Adjusted for 1975 common stock dividends declared.

During the fourth quarter of 1975, year-end adjustments to non-U.S. operations resulted in losses which did not provide tax benefits. In 1974, the net loss was increased $2,300,000 due to a provision for a plant closing in the Automotive Group.

ASSETS AND LIABILITIES

Total assets at December 31, 1975 were $293,267,000 as compared to $328,796,000 at December 31, 1974. Assets of consolidated non-U.S. subsidiaries were $56,233,000 and $54,017,000 as of December 31, 1975 and 1974, respectively.

Current assets decreased $29,066,000 from $232,174,000 at December 31, 1974 to $203,108,000 at December 31, 1975, and current liabilities decreased $32,719,000 resulting in an increase in working capital of $3,653,000.

Investments in associated companies includes the equity interest in the accounts of four companies outside the United States. During 1975, the Company increased its ownership in a partially owned company (carried at cost) and reclassified the 1974 investment of $710,000 from investments in other companies.

Investments in other companies consist of common stocks of three domestic companies listed on national stock exchanges. At December 31, 1975, the securities portfolio was written down from a carrying value of $3,246,000 to market of $2,524,000 with the $722,000 unrealized loss charged to shareholders' equity. In 1974, the market value was $1,685,000 and carrying value totaled $3,246,000, adjusted by a $600,000 charge to income. These stocks were not acquired for resale purposes, and represent a minor portion of the total outstanding shares of the respective companies. Management of the Company has carefully evaluated these investments and concluded that persuasive evidence exists to support the expectation that the difference between current market value and adjusted cost is of a temporary nature.

Additions to property, plant and equipment amounted to $7,238,000 in 1975 and $19,646,000 in 1974.

UNSECURED BANK LOANS

At December 31, 1975, the Company had domestic short-term lines of credit aggregating $52,150,000 of which $3,000,000 was in use. The maximum short-term borrowings at any month-end during 1975 and 1974 were $41,350,000 and $50,350,000 and the weighted average 1975 and 1974 interest rates were 8.1% and 10.9%, respectively.

The Company has a credit agreement expiring November 1, 1976 providing for aggregate Eurocurrency borrowings of $8,000,000. At December 31, 1975, there were borrowings of $5,000,000 at an interest rate of 7.5% ($800,000 in 1974 at an average rate of 12.7%).

LONG-TERM DEBT

Long-term debt at December 31 consisted of unsecured and secured obligations of both domestic and non-U.S. operations:

	1975	1974
	(Thousands of dollars)	
UNSECURED OBLIGATIONS		
Notes payable to insurance companies	**$35,000**	35,000
Notes payable to banks under revolving credit agreement	**20,000**	20,000
Notes payable to banks under term loan agreements	**16,880**	22,680
Notes payable to domestic banks under subordinated loan agreement	**6,000**	6,000
Notes payable to non-U.S. bank under subordinated loan agreement	**4,000**	4,000
Notes payable under Belgian Franc Credit Facility	**6,500**	5,938
Other unsecured at 4% to 7% due in installments to 1982	**1,509**	1,983
SECURED OBLIGATIONS—MORTGAGE NOTES AND EQUIPMENT LOANS		
Domestic obligations, 3% to 7½% due in installments to 1987	**1,794**	1,892
Non-U.S. obligations, 3% to 8¼% due in installments to 1984	**1,739**	1,930
	93,422	99,423
Less current maturities, included in current liabilities	**5,500**	6,521
Net long-term debt	**$87,922**	92,902

The aggregate maturities of long-term debt for the four years 1977 through 1980 are:

	1977	1978	1979	1980
Amounts (Thousands)	$8,400	11,200	10,800	10,800

Six insurance companies have loaned the Company $35,000,000 under a long-term loan agreement which matures June 1, 1992. Beginning June 1, 1978, the agreement requires annual payments of $2,400,000 of

the principal amount of the loan. Interest is payable semi-annually on June 1 and December 1 at the rate of 8⅛%.

Under a revolving credit agreement with nine banks, the Company may borrow up to $40,000,000 until May 16, 1976 with interest at prime rate. Upon expiration of the revolving credit period, the amount of borrowings may be converted into a term loan which is repayable in ten semi-annual installments beginning December 31, 1976, bearing interest at ¼% above the prime rate through May 16, 1979 and ½% over the prime thereafter.

Borrowings under a term loan agreement with five banks aggregated $6,880,000 at December 31, 1975. The agreement provides for repayment in quarterly installments ending in 1981 with interest at 8% through December 31, 1976, and 8½% thereafter. The Company also has a term loan agreement with a bank in the amount of $10,000,000 due to be repaid on or before April 16, 1981. The interest rate is ½% in excess of 110% of the prime rate and is payable semi-annually in June and December.

A subordinated term loan exists with two domestic banks and a non-U.S. bank for $6,000,000 and $4,000,000, respectively, at December 31, 1975. The agreements provide for semi-annual payments of $1,000,000 beginning November 30, 1976. The interest rate on the domestic portion is 1⅞% in excess of the prime rate to May 31, 1977 and 2¼% in excess of prime thereafter. The interest rate on the non-U.S. loan is 1⅝% in excess of the London Inter-Bank offered rate to May 31, 1977, and 2% in excess thereafter.

There is also a credit agreement with two Belgian banks providing for the equivalent of $6,500,000 in Belgian francs through December 31, 1982. Borrowings under this agreement will be payable in seven equal annual payments beginning December 31, 1976. At December 31, 1975, borrowings under this agreement totaled $6,500,000 at an interest rate of 7.4%.

Although not required by any formal agreement, the Company maintains an average compensating balance on the short-term lines and the $40,000,000 revolving credit agreement of 10% of the total amount committed plus an average of 10% of the debts outstanding, and 5% of the $10,000,000 term loan agreement. During 1975 the average compensating balance on deposit under these lines of credit amounted to approximately $15,100,000 ($17,500,000 in 1974) after adjustment of the estimated average bank float of $1,500,000 in each year. Of this amount, approximately $5,000,000 is maintained for normal company operations.

LONG-TERM DEBT RESTRICTIONS

The most restrictive provisions of the various long-term debt agreements require Questor Corporation and certain consolidated subsidiaries to maintain working capital of not less than $75,000,000 through May 16, 1976 and $85,000,000 thereafter and net tangible assets, as defined, of not less than 225% of senior long-term debt. At December 31, 1975 the working capital requirements were exceeded by $44,225,000 and net tangible assets were 263% of senior long-term debt. In addition, certain restrictions are placed on the retained earnings available for the payment of common stock cash dividends and purchase of the stock of the Company. At December 31, 1975, $3,300,000 of retained earnings were free of such restrictions ($1,000,000 in 1974).

CAPITAL SHARES

The Board of Directors may establish one or more series of authorized prior preferred stock and fix the rates, preferences and terms of each series. All series of prior preferred stock are to rank senior to the Company's common stock as to all rights, powers and privileges.

The Series A $2.00 convertible prior preferred stock, which is entitled to cumulative cash dividends of $2.00 annually, is convertible into shares of common stock at the rate of 1.767 shares of common for each share of preferred (adjusted for all common stock dividends declared through 1975), and is redeemable at the option of the Company at $50.00 per share (an aggregate of $5,153,000) plus accrued dividends. Holders of the Series A prior preferred stock are entitled to one vote per share.

At December 31, 1975, an aggregate of 649,600 common shares were reserved for issuance upon conversion of the prior preferred shares, awards under the restricted stock award plan and exercise of stock options (650,020 shares in 1974).

RESTRICTED STOCK AWARD PLAN AND STOCK OPTIONS

The Company has a restricted stock award plan under which a maximum of 150,000 of its common shares may be awarded to middle-management employees of the Company and its subsidiaries to reward outstanding performance and build loyalty. Certificates covering awarded shares contain restrictions against the sale of the stock for specified periods, and the Company receives no deduction for income taxes until the dates when the restrictions terminate. The number of awarded shares issued and outstanding as of December 31, 1975 and 1974 were 13,690 and 13,270, respectively.

Under the Company's 1968 and 1972 qualified stock option plans for certain officers and key employees, options may be granted at prices not less than market value at date of grants or in certain instances dates of subsequent modification.

Data on share options are summarized below:

	Shares 1975	Shares 1974
Options outstanding at beginning of year	**246,798**	285,606
Additional options granted ($3.51 to $8.73 per share)	**9,724**	61,329
Options expired or terminated ($3.51 to $18.75 per share)	**(23,707)**	(100,137)
Options outstanding at end of year ($3.51 to $22.27 per share)	**232,815**	246,798
Available at end of year for future grants	**98,411**	84,428
Aggregate exercise price of outstanding options	**$1,545,000**	1,710,000

The above shares and prices per share have been adjusted to reflect the common stock dividends declared.

PENSION PLANS

The most recent determinations indicate that the actuarially computed values of vested benefits under the Company's principal pension plans exceed the market value of the assets of the corresponding funds by approximately $16,200,000 at December 31, 1975 ($16,500,000 in 1974). The unfunded prior service costs of these plans were approximately $23,200,000 at December 31, 1975 and $21,600,000 at December 31, 1974.

The Company's consulting actuaries estimate that compliance with the requirements of the Employee Retirement Income Security Act of 1974 will have no significant effect on the Company's principal pension plans, except for an increase in 1976 of approximately $3,900,000 in unfunded liabilities (attributable to the new vesting provisions for employees terminating before retirement age with at least ten years of credited service). This amount will be amortized over 30 years.

COMMITMENTS

The Company and its subsidiaries lease certain manufacturing, warehousing and office facilities and equipment, under various lease agreements, having renewal options, expiring periodically through 1984.

Total rentals applicable to noncancelable, long-term leases (including "financing" leases applicable to computer equipment) are summarized as follows:

	Computer Equipment (Financing Leases)	Real Property	Machinery & Equipment	Total
	(Thousands of Dollars)			
1976	$1,149	2,009	95	3,253
1977	761	1,583	46	2,390
1978	701	1,079	16	1,796
1979	684	763	—	1,447
1980	170	397	—	567
1981-1984	—	343	—	343
	$3,465	6,174	157	9,796

SUBSEQUENT EVENT

On February 3, 1976, the Board of Directors declared a 2% common stock dividend on its outstanding common stock payable from authorized but unissued shares on April 30, 1976. After giving retroactive effect to this dividend, the earnings per share for 1975 will be $.22, loss per share for 1974 will be $.34 and the conversion rate for the convertible preferred stock will be 1.802.

Questor Corporation and Subsidiaries
Statements of Consolidated Earnings

Years Ended December 31, 1975 and 1974

	1975	1974
NET SALES	$406,526,000	384,285,000
Cost of sales	298,098,000	288,219,000
Selling, general and administrative expenses	89,657,000	85,234,000
Interest expense	13,083,000	13,806,000
Provision for plant closing costs	—	4,000,000
Other expense (income), net (excluding unrealized loss on investments in other companies of $722,000 and $1,561,000)	535,000	(594,000)
Total Costs and Expenses	401,373,000	390,665,000
Earnings (loss) before Federal and other nations' income taxes	5,153,000	(6,380,000)
Federal and other nations' income taxes	2,900,000	(3,400,000)
NET EARNINGS (LOSS)	$ 2,253,000	(2,980,000)
EARNINGS (LOSS) PER COMMON SHARE	$ .23	(.35)

See Accounting Policies and Financial Review on pages 18 to 23.

Questor Corporation and Subsidiaries
Statements of Consolidated Changes in Financial Position

Years Ended December 31, 1975 and 1974

	1975	1974
WORKING CAPITAL PROVIDED		
Net earnings (loss)	$ 2,253,000	(2,980,000)
Items not requiring outlay of working capital		
Depreciation and amortization	9,625,000	9,464,000
Net increase in deferred Federal and other nations' income taxes	868,000	679,000
Equity in losses (earnings) of associated companies	1,549,000	(151,000)
Valuation adjustment on investments in other companies	—	600,000
Abandonment of property, plant and equipment	253,000	326,000
Working Capital Provided from Operations	14,548,000	7,938,000
Proceeds from long-term borrowings	562,000	41,333,000
Issuance (cancellation) of common stock	(8,000)	38,000
Disposals of property, plant and equipment	2,180,000	1,036,000
Decrease in other assets excluding depreciation, amortization and transfers	1,296,000	442,000
Working capital arising from initial consolidation of non-U.S. subsidiaries	—	2,372,000
Total Working Capital Provided	18,578,000	53,159,000
WORKING CAPITAL USED		
Current installments and repayment of long-term debt	5,542,000	8,520,000
Acquisition of common shares under tender offer	—	13,662,000
Additions to property, plant and equipment	7,238,000	19,646,000
Cash dividends	294,000	3,249,000
Investments in associated companies	1,851,000	1,574,000
Total Working Capital Used	14,925,000	46,651,000
INCREASE IN WORKING CAPITAL	$ 3,653,000	6,508,000
INCREASE (DECREASE) IN COMPONENTS OF WORKING CAPITAL		
Cash	$ (3,551,000)	(1,540,000)
Receivables and refundable Federal income taxes	6,198,000	9,817,000
Inventories	(30,837,000)	32,013,000
Future income tax benefits and other current assets	(876,000)	5,046,000
Total Current Assets	(29,066,000)	45,336,000
Unsecured bank loans and current maturities of long-term debt	(29,151,000)	27,005,000
Payables and accruals	(3,403,000)	11,942,000
Other nations' income taxes	(165,000)	(119,000)
Total Current Liabilities	(32,719,000)	38,828,000
INCREASE IN WORKING CAPITAL	$ 3,653,000	6,508,000

See Accounting Policies and Financial Review on pages 18 to 23.

Questor Corporation and Subsidiaries
Consolidated Balance Sheets

December 31, 1975 and 1974

	1975	1974
ASSETS		
CURRENT ASSETS		
Cash	$ 4,813,000	8,364,000
Receivables, less allowance of $3,045,000 and $3,089,000	83,776,000	74,817,000
Refundable Federal income taxes	303,000	3,064,000
Inventories		
Finished goods	62,756,000	78,695,000
Work in process	19,992,000	23,723,000
Production materials	21,539,000	32,706,000
Total inventories	104,287,000	135,124,000
Future income tax benefits	2,297,000	3,491,000
Other current assets	7,632,000	7,314,000
Total Current Assets	203,108,000	232,174,000
INVESTMENTS		
Associated companies	4,788,000	4,486,000
Other companies, at market in 1975 and adjusted cost in 1974	2,524,000	3,246,000
Total Investments	7,312,000	7,732,000
PROPERTY, PLANT AND EQUIPMENT		
Land	3,565,000	3,649,000
Buildings and building improvements	47,941,000	47,761,000
Machinery and equipment	95,144,000	92,931,000
Construction in progress	1,673,000	4,189,000
	148,323,000	148,530,000
Accumulated depreciation	(74,417,000)	(68,643,000)
Net Property, Plant and Equipment	73,906,000	79,887,000
OTHER ASSETS		
Unamortized cost in excess of net assets of businesses acquired	4,238,000	4,363,000
Other assets	4,703,000	4,640,000
Total Other Assets	8,941,000	9,003,000
	$293,267,000	328,796,000

See Accounting Policies and Financial Review on pages 18 to 23.

	1975	1974
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Unsecured bank loans	$ 20,578,000	48,708,000
Current maturities of long-term debt	5,500,000	6,521,000
Accounts payable	20,342,000	20,563,000
Accrued compensation	7,527,000	6,909,000
Taxes excluding other nations' income taxes	3,019,000	4,537,000
Contributions to employee retirement plans	4,964,000	3,401,000
Other accrued expenses	12,897,000	16,742,000
Other nations' income taxes	1,213,000	1,378,000
Total Current Liabilities	76,040,000	108,759,000
DEFERRED FEDERAL AND OTHER NATIONS' INCOME TAXES	3,558,000	2,690,000
LONG-TERM DEBT	87,922,000	92,902,000
MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES	607,000	534,000
SHAREHOLDERS' EQUITY		
Prior preferred stock, without par value		
Authorized: 1,000,000 shares		
Issued: 103,063 shares of Series A $2.00 convertible ($35.00 stated value)	3,607,000	3,607,000
Common stock, $1.00 par value		
Authorized: 14,000,000 shares		
Issued: 9,126,462 shares and 8,778,820 shares	9,126,000	8,779,000
Additional paid-in capital	10,098,000	11,130,000
Retained earnings	105,340,000	107,417,000
Common stock held in treasury, at cost—163,874 shares and 498,388 shares	(2,309,000)	(7,022,000)
Unrealized loss on investments in other companies	(722,000)	—
Total Shareholders' Equity	125,140,000	123,911,000
	$293,267,000	328,796,000

Questor Corporation and Subsidiaries
Statements of Consolidated Shareholders' Equity **Years Ended December 31, 1975 and 1974**

	Series A Prior Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock (Common)	Unrealized Loss On Investments
Balance at December 31, 1973	$3,607,000	9,979,000	14,799,000	124,688,000	(9,309,000)	—
Net loss for the year	—	—	—	(2,980,000)	—	—
Cash dividends declared						
Series A prior preferred stock—$2.00 per share	—	—	—	(206,000)	—	—
Common stock—$.375 per share	—	—	—	(3,043,000)	—	—
2% common stock dividend declared	—	—	(1,610,000)	(677,000)	2,287,000	—
Retirement of 1,205,022 shares of common stock acquired under tender offer	—	(1,205,000)	(2,092,000)	(10,365,000)	—	—
Issuance of common stock under restricted stock award plan, net	—	5,000	33,000	—	—	—
Balance at December 31, 1974	3,607,000	8,779,000	11,130,000	107,417,000	(7,022,000)	—
Net earnings for the year	**—**	**—**	**—**	**2,253,000**	**—**	**—**
Cash dividends declared						
Series A prior preferred stock—$2.00 per share	**—**	**—**	**—**	**(206,000)**	**—**	**—**
Common stock—$.01 per share	**—**	**—**	**—**	**(88,000)**	**—**	**—**
Quarterly 2% common stock dividends declared	**—**	**348,000**	**(1,025,000)**	**(4,036,000)**	**4,713,000**	**—**
Cancellation of common stock under restricted stock award plan, net	**—**	**(1,000)**	**(7,000)**	**—**	**—**	**—**
Adjustment of investments in other companies to market	**—**	**—**	**—**	**—**	**—**	**(722,000)**
Balance at December 31, 1975	**$3,607,000**	**9,126,000**	**10,098,000**	**105,340,000**	**(2,309,000)**	**(722,000)**

See Accounting Policies and Financial Review on pages 18 to 23.

PEAT, MARWICK, MITCHELL & CO.
Certified Public Accountants
Edison Plaza
Toledo, Ohio 43604

The Board of Directors
Questor Corporation:

We have examined the consolidated balance sheets of Questor Corporation and subsidiaries as of December 31, 1975 and 1974 and the related statements of consolidated earnings, shareholders' equity, and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Questor Corporation and subsidiaries at December 31, 1975 and 1974 and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

PEAT, MARWICK, MITCHELL & CO.
February 3, 1976

Questor Corporation and Subsidiaries
Five-Year Summary of Consolidated Operations and Management's Discussion and Analysis

	1975	1974	1973	1972	1971
OPERATIONS					
NET SALES	$406,526,000	384,285,000	366,497,000	335,259,000	286,359,000
Cost of sales	298,098,000	288,219,000	268,224,000	237,186,000	204,174,000
Selling, general and administrative expenses	89,657,000	85,234,000	76,124,000	68,716,000	56,987,000
Interest expense	13,083,000	13,806,000	5,788,000	4,196,000	3,640,000
Provision for plant closing costs	—	4,000,000	—	—	—
Other expense (income), net	535,000	(594,000)	(2,964,000)	(1,383,000)	(178,000)
Total Costs and Expenses	401,373,000	390,665,000	347,172,000	308,715,000	264,623,000
Earnings (loss) before Federal and other nations' income taxes and extraordinary income	5,153,000	(6,380,000)	19,325,000	26,544,000	21,736,000
Federal and other nations' income taxes	2,900,000	(3,400,000)	8,200,000	12,300,000	10,200,000
Earnings (loss) before extraordinary income	2,253,000	(2,980,000)	11,125,000	14,244,000	11,536,000
Extraordinary income net of taxes	—	—	—	113,000	—
NET EARNINGS (LOSS)	$ 2,253,000	(2,980,000)	11,125,000	14,357,000	11,536,000
EARNINGS (LOSS) PER COMMON SHARE (1)					
Earnings (loss) before extraordinary income	$ .23	(.35)	1.04	1.32	1.07
Extraordinary income	—	—	—	.01	—
Net earnings (loss)	$ .23	(.35)	1.04	1.33	1.07

(1) Based on net earnings (loss), after considering preferred stock dividend requirements, divided by the average number of shares outstanding during the respective periods assuming full dilution where applicable and restated retroactively for common stock dividends declared in 1975 and 1974.

The 1975 earnings turnaround was primarily attributable to improved performances of the domestic Automotive and Juvenile Groups, both of which adversely affected the 1974 results.

The Automotive Group posted pre-tax earnings of $288,000 in 1975 compared to a pre-tax loss of $11,094,000 in 1974. While the Group's performance was adversely affected by net losses in its international operations, domestic operations made substantial gains, particularly in the replacement parts market. The depressed performance of the Automotive Group in 1974 was occasioned by substantial raw material costs increases and a "soft" market for its products, reflecting general economic conditions and the energy crisis. Additionally, non-recurring costs included a provision of $4,000,000 for costs of closing an inefficient muffler plant in Youngstown, Ohio and substantial costs associated with the introduction of a new line of shock absorbers.

The Juvenile Products Group had higher earnings with Questor Education Products showing significant earnings improvement. In 1974, the Group's earnings were depressed primarily due to a loss incurred at Questor Education Products.

The loss in the Recreation Products Group in 1975 was primarily due to a downturn in the demand for certain sporting goods and a sizeable loss at the Fischer billiard operation.

The Company's overall operations in 1974 were adversely affected by inflated manufacturing costs and an increase of $8,018,000 in interest costs, reflecting increased borrowings as well as higher rates.

Reference is made to the Financial Review on pages 19 and 20 for further comparative information on 1975 and 1974 sales and earnings.

Questor Corporation and Subsidiaries
Sales and Pre-Tax Earnings by Product Group

	1975	1974	1973	1972	1971
AUTOMOTIVE PRODUCTS					
Net Sales	**$171,672,000**	158,061,000	171,910,000	169,656,000	140,297,000
Earnings (loss) before Federal and other nations' income taxes and extraordinary income	**288,000**	(11,094,000)	7,721,000	17,528,000	15,473,000
RECREATION PRODUCTS					
Net Sales	**133,355,000**	132,846,000	112,322,000	90,538,000	77,475,000
Earnings (loss) before Federal and other nations' income taxes and extraordinary income	**(1,206,000)**	4,924,000	4,975,000	2,880,000	(508,000)
JUVENILE PRODUCTS					
Net Sales	**75,086,000**	68,012,000	61,845,000	57,376,000	53,231,000
Earnings before Federal and other nations' income taxes and extraordinary income	**4,957,000**	913,000	4,175,000	5,205,000	4,988,000
HOME ENVIRONMENTAL PRODUCTS					
Net Sales	**26,413,000**	25,366,000	20,420,000	17,689,000	15,356,000
Earnings before Federal and other nations' income taxes and extraordinary income	**3,051,000**	2,708,000	2,364,000	2,882,000	2,010,000
UNALLOCATED CORPORATE INCOME (EXPENSE)	**(1,937,000)**	(3,831,000)	90,000	(1,951,000)	(227,000)
CONSOLIDATED					
Net Sales	**$406,526,000**	384,285,000	366,497,000	335,259,000	286,359,000
Earnings (loss) before Federal and other nations' income taxes and extraordinary income	**5,153,000**	(6,380,000)	19,325,000	26,544,000	21,736,000

Questor Corporation and Subsidiaries
Five-Year Financial Summary

	1975	1974	1973	1972	1971
FINANCIAL POSITION					
Working capital	**$127,068,000**	123,415,000	116,907,000	118,681,000	91,055,000
Investments and other assets	**16,253,000**	16,735,000	18,660,000	19,133,000	13,667,000
Property, plant and equipment	**73,906,000**	79,887,000	68,072,000	60,557,000	57,155,000
	217,227,000	220,037,000	203,639,000	198,371,000	161,877,000
Deferred Federal and other nations' income taxes	**3,558,000**	2,690,000	2,011,000	1,948,000	1,629,000
Long-term debt	**87,922,000**	92,902,000	57,432,000	56,034,000	29,256,000
Minority interests in consolidated subsidiaries	**607,000**	534,000	432,000	—	—
	92,087,000	96,126,000	59,875,000	57,982,000	30,885,000
Shareholders' equity	**$125,140,000**	123,911,000	143,764,000	140,389,000	130,992,000
OTHER DATA					
Additions to property, plant and equipment	**$ 7,238,000**	19,646,000	15,461,000	11,293,000	13,088,000
Depreciation and amortization	**9,625,000**	9,464,000	7,941,000	7,190,000	6,895,000
Average number of shares outstanding (1)	**8,980,631**	9,071,183	10,677,979	10,831,822	10,793,251
Cash dividends declared per outstanding common share (2)	**.01**	.375	.50	.50	.50
Common stock dividends declared	**4 @ 2%**	2%	—	—	—
Number of shareholders	**6,493**	6,184	6,744	6,412	6,284
Number of employees	**10,996**	10,446	12,382	12,237	11,696

(1) Based on the average number of shares outstanding during the respective periods assuming full dilution where applicable and restated retroactively for common stock dividends declared in 1975 and 1974.

(2) Not restated for common stock dividends.

COMPARATIVE STOCK DATA

This table sets forth the high and low sales price per share for Questor Corporation common stock and prior preferred stock on the New York Stock Exchange and the dividends declared for the periods indicated (not adjusted for common stock dividends).

	1975			1974		
Common Stock	**High**	**Low**	**Dividend**	High	Low	Dividend
1st Quarter	**6¼**	**4**	*	12⅜	7	.125
2nd Quarter	**7**	**5⅜**	*	10⅛	8	.125
3rd Quarter	**7⅜**	**5¾**	*	8⅝	5⅝	.125
4th Quarter	**6⅞**	**5½**	**.01***	6¼	3⅜	*
Prior Preferred Stock						
1st Quarter	**17¾**	**14¼**	**.50**	25½	21	.50
2nd Quarter	**19**	**16¼**	**.50**	27	20½	.50
3rd Quarter	**19¼**	**17¾**	**.50**	20¼	19½	.50
4th Quarter	**19**	**17¾**	**.50**	19	14	.50

*2% common stock dividends declared.

QUESTOR

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